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A System for Evaluating the Performance of Government-Invested Enterprises in the Republic of Korea

Young C. Park

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TABLE OF CONTENTS

	<u>Page</u>
<u>EXECUTIVE SUMMARY</u>	v
I. <u>INTRODUCTION</u>	1
II. <u>THE ROLE AND IMPORTANCE OF GOVERNMENT-INVESTED ENTERPRISES (GIEs)</u>	2
III. <u>THE UNSATISFACTORY EFFICIENCY LEVEL OF GIEs</u>	4
IV. <u>GOVERNMENT-INVESTED ENTERPRISE MANAGEMENT ACT</u>	6
A. Institutional Reforms	7
1. Public Enterprise Evaluation Bureau	9
2. GIE Management Evaluation Ad Hoc Task Force	10
3. GIE Special Task Force.....	11
4. Sectoral/Technical Ministries	12
B. Legal Reforms	13
V. <u>THE PERFORMANCE EVALUATION SYSTEM</u>	14
A. Basic Principles Governing the Performance Evaluation.....	15
System	
B. Implementation.	17
C. Indicators of Performance Evaluation.....	19
1. Quantitative Indicators	20
2. Qualitative Indicators	22
VI. <u>EVALUATION RESULTS FOR 1983 AND 1984 OPERATIONS</u>	22
VII. <u>ASSESSMENT OF THE PERFORMANCE EVALUATION SYSTEM</u>	26
A. The System's Achievements	26
B. Realization of Management Act's Goals.....	29
C. Reasons for the System's Success	31
D. Problems with the System and Proposed Solutions	33
VIII. <u>LESSONS FOR FUTURE PERFORMANCE EVALUATION SYSTEMS</u>	38

Annexes

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Executive Summary

1. The paper describes the performance evaluation system for Government-Invested Enterprises (GIEs) in Korea, and discusses its potential applicability in other countries. Specifically, the paper presents the recent reform measures in the public enterprise sector, and analyzes the results of the performance evaluation of GIEs during its first two years, 1983 and 1984. The paper also discusses the major factors of achievements of the Korean system and its weaknesses, and finally attempts to draw some conclusions that could be useful for other countries which may consider adopting a similar system.

2. The public enterprise sector in Korea accounts for 9% of GDP, 7% of total employment in the manufacturing sector, and 28% of the country's fixed capital formation. The sector comprises some 85 corporations, which can be classified into four categories according to the degree of government participation in equity and intervention in management. By far the most important of these four categories is the government-invested enterprise, where government holds at least 50% of the equity and top management is appointed by the Government. There are currently 25 GIEs, which account about half of the employment, value-added, and sales of the public enterprise sector.

3. Until recently, the performance of the GIEs was disappointing. Their rate of return on operating capital was only 3.7% compared to 10.1% for industry as a whole. Just a 5% improvement in the efficiency of GIEs would free resources amounting to about 1.7% of GDP (in 1981). To boost the efficiency of the GIEs, the Government-Invested Enterprise Management Act was promulgated in 1984. This Act aims at introducing fundamental and far-reaching measures designed to increase managerial autonomy and accountability as well as establishing effective government control over the activities of the GIEs. The most prominent reform under the new Act was the introduction of the performance evaluation system.

4. The Korea system uses two kinds of performance indicators: quantitative indicators which account for 70% of the final "score" of the GIE, and qualitative indicators which account for 30%. There are a dozen quantitative indicators, with public or private profitability as the most important single indicator (20% weight), and 3-4 qualitative indicators, such as long-term corporate debt management plan and quality improvement of services to customers.

5. Notwithstanding some technical flaws (such as the problem of duplicate indicators), the Korean performance evaluation system can be considered to be an impressive achievement. The most important factor in the system's success is the high degree of political commitment. This is essentially critical in a country like Korea, where government leadership is a major driving force for economic growth. The high receptiveness of the managers of GIEs to the system's incentives is the second most important factor. The pecuniary reward is an "extra bonus" determined by the GIE's ranking: the outstanding firms receive a sum equivalent to three

month's "extra" salary/wage, whereas the poorly performing firms get only one month "extra" salary/wage. Even more important is the nonmaterial incentive or sanction provided by public recognition of performance. Public recognition is an important element in group psychology in the culture of Korea, and exerts an immense influence on the behavior of the Koreans. A number of other factors have also contributed to the Korean system's success, including the relatively simple data requirements, the pre-existing well trained manpower of GIEs, the ready disposition of Koreans towards the relative ranking system because of their early exposure to high competitive entrance examinations, and the flexibility in setting enterprise-specific indicators and management objectives.

6. Four major lessons from the Korean experience for other performance evaluation system are: (a) high level political leaders and ministries should show a strong, consistent and high commitment to the system; (b) at the start, the system should be simple with rather crude indicators and limited data requirements -- the system can be gradually refined at a later stage; (c) devising adequate "incentive" and career development systems, based upon the results of performance evaluation, is of critical importance; and (d) training the key officials in government and public corporations who are responsible for running the system should be given top priority in the reform strategy of the public enterprise sector.

I. INTRODUCTION

1.01 Korea is one of the few countries in the world that has a system for evaluating the performance of its public enterprises. Established in 1983, the system is enjoying great success in Korea. There are many lessons to be learned from Korean experience, and its system appears to be rather easily adaptable to other countries. However, very few documents about the system are available in English. 1/ Based on a mission to Korea during July 1985, this paper extensively describes the system. It addresses an audience that seeks to apply or adopt the Korean system to other countries, especially data-poor African ones. The paper is not meant to provide a theoretical economic analysis of the system.

1.02 This paper first reviews briefly the place and role of Government-Invested Enterprises (GIEs) in Korea, which represent by far the most important category of public corporations. It traces the unsatisfactory performance of GIEs, leading to the promulgation of the Government-Invested Enterprise Management Act which introduced extensive institutional and legal reforms. The paper then describes the system's various characteristics and reviews the results of the evaluations conducted for its first two operational years, 1983 and 1984. Finally, the paper assesses the system's performance and attempts to draw some

1/ All documents (both in English and Korean) consulted for the paper are given in the bibliography at the end of the paper.

conclusions that will be useful for other countries which may consider adopting a similar system.

II. THE ROLE AND IMPORTANCE OF GOVERNMENT-INVESTED ENTERPRISES

2.01 Korea is well known for its reliance on market forces, its industrious labor force, the great energy of its private entrepreneurs, and the pragmatism of the government's economic policies. In such an economy, the large size of the public enterprise (PE) sector comes rather as a surprise: in 1980, it accounted for about 9% of GDP, 7% of total employment in the manufacturing sector, and 28% of the country's fixed capital formation. This size reflects the government's strong commitment to a centrally directed development strategy in critical areas and its desire to use the PE sector as a vehicle to further achieve its various economic objectives, including export promotion, accelerated development of heavy industries, and wide distribution of the products of public utilities.

2.02 The PE sector in Korea comprises some 85 enterprises which can be classified into four categories according to the varying degrees of government participation in ownership and its intervention in management:

- . governmental enterprises, composed of various governmental departments such as the Office of Monopoly or Office of Railroads;
- . government-invested enterprises (GIEs), where government holds at least 50% of the equity and whose top management is appointed by the government such as with the Korea Development Bank or the Korea Electric Power Corporation;
- . subsidiary companies of GIEs, which allow the government to invest indirectly through GIEs; and
- . other government-backed enterprises, where the government holds less than 50% of the stock.

2.03 By far the most important of these enterprises are the GIEs. They represent the core of the new enterprises established since President Park launched his ambitious export-led growth programs in the early 1960s. There are currently 25 GIEs, which account for 45% of the employment, 47% of the total budget, and 43% of the sales of the PE sector. 2/ All 25 GIEs are currently extending their activities in various subsectors--banking and finance (5), manufacturing (5), construction, (5) and services (10)-- thus strengthening their influence on Korea's economy.

2/ For further details of the 25 GIEs, see Annex II.

2.04 In 1984, the combined budget of the 25 GIEs amounted to 11,270 billion won (\$1.00 = 810 won). This amount exceeded the general-account budget of the central government, whereas the total investment in GIEs represented 17% of gross domestic investment of Korea. In addition, GIEs have very strong forward and backward linkages, and their prices for electricity, coal, and telephone services have a significant bearing on overall cost and price levels. Finally, GIEs are major holders of domestic credit and external debts: at the end of 1983, they accounted for 24% and 56% of total external and domestic debentures, respectively.

III. THE UNSATISFACTORY LEVEL OF EFFICIENCY OF GIEs

3.01 Although the performance of GIEs compared favorably with that of the PE sectors of most other developing countries, it was not up to the expected level. For 1982, the rate of return of operating capital was estimated to be only 3.7% for the GIEs, against 10.1% for industry as a whole. Already in the late 1970's, the disappointing level of efficiency, together with the deteriorating financial situation of GIEs and their negative impact on public-sector resources, gave rise to rapidly growing concern.

3.02 In the early 1980s, the government-sponsored Korea Development Institute (KDI) carried out a series of research programs on the problems of the GIEs in Korea. In September 1981, the KDI reported its findings and

recommendations to President Chun, who expressed a keen interest in reforming GIEs and a strong commitment to the idea of a performance evaluation system for GIEs. The major problems underlying the poor efficiency of GIEs were very similar to those commonly found in other developing countries. These problems included obscure and sometimes conflicting managerial goals, the absence of both the accountability and autonomy of management, excessive government interference in day-to-day management without effective control over the results, inadequate personnel and incentive systems, complicated budget and procurement processes, and inappropriate pricing and credit policies.

3.03 A simple calculation showed that even a slight improvement in efficiency in GIEs could bring about substantial gains in the national economy. For example, a 5% improvement in the real efficiency of GIEs in Korea was estimated to free resources amounting to 1.7% of GDP, or over one billion dollars, in 1981. ^{3/} Increased efficiency of GIEs therefore would bring much-needed relief to the three key issues confronting Korea in the early 1980s: price stabilization, external debt reduction, and freeing an adequate amount of investment resources for the private sector.

^{3/} Leroy P. Jones, "Towards a Performance Evaluating Methodology for Public Enterprises: With Special Reference to Pakistan," 1982.

3.04 Working closely with the Economic Planning Board from March 1982 to March 1984, the KDI formulated proposals for improving the efficiency of GIEs. The capstone of these proposals was a system for evaluating the performance of GIEs. With the strong personal support of the Deputy Prime Minister and Minister of the Economic Planning Board, the KDI undertook several campaigns to mobilize the consensus of government, business, and academic circles in favor of reforming the PE system, especially the critical need for adopting supporting legislation. 4/

IV. GOVERNMENT-INVESTED ENTERPRISE MANAGEMENT ACT

4.01 As a result of these efforts, the National Assembly passed the Government-Invested Enterprise Management Act on December 16, 1983, and promulgated the Act on December 31 of that year (Law No. 3690). On March 20, 1984, the Enforcement Decree for the Government-Invested Enterprise Management Act was promulgated as Presidential Decree No. 11,395.

4.02 The new Act, merges two existing Acts: the Government-Invested Administration Act and Government-Invested Enterprise Budget and Account Act. Its objectives are: (1) increased managerial autonomy and

4/ Under the second Structural Adjustment Loan to Korea covering 1983-84, the World Bank stated the promulgation of the Act as the key monitorable action and conditionality for the PE reform component.

accountability, and (2) effective control. They are to be achieved by such innovations as: 5/

1. the management by objectives (MBO) system of budget preparation;
2. greater enterprise management control over procurement, budgeting, and personnel policy;
3. a two-tier management organization, with the Board of Directors as the decision-making body and the enterprise President as chief executive in charge of implementation;
4. the simplification and unification of outside audits, and the elimination of business supervision by technical ministries; and
5. an objectives-oriented post-evaluation system and related incentive systems.

A. Institutional Reforms

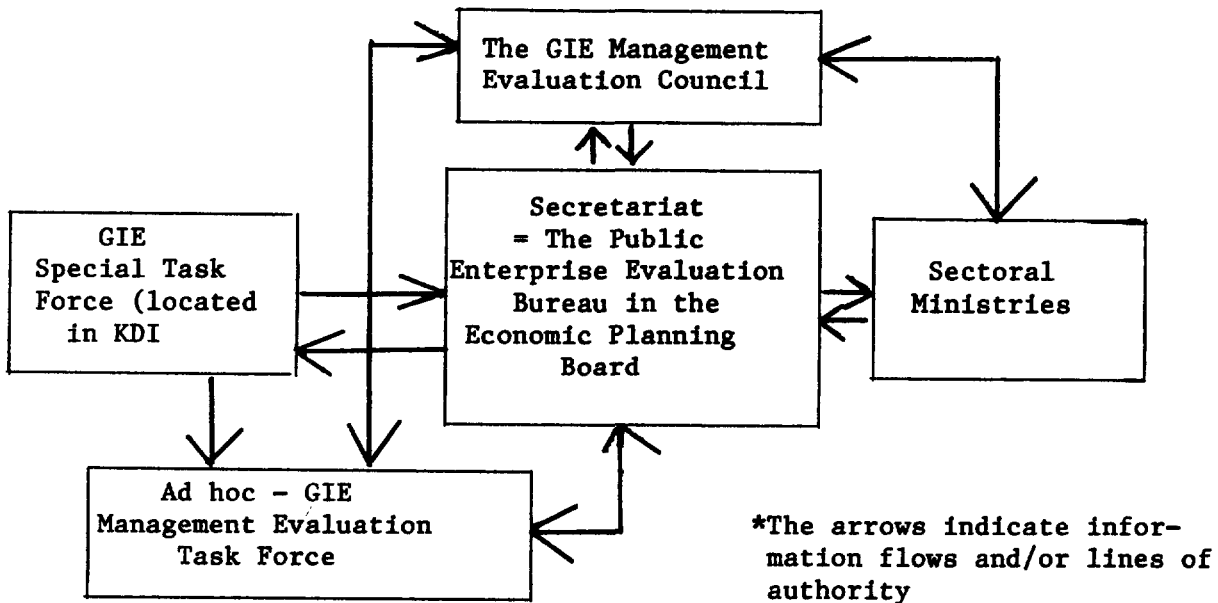
4.03 The Act's most important innovation by far is its evaluation system, which determines differentiated bonuses and other rewards as well

5/ For details, see "Introduction to the Government-Invested Enterprises Management Act," December 1984, Economic Planning Board, The Republic of Korea.

as penalties. This section examines the institutional and legal reforms that became necessary to implement the Act.

4.04 Implementing the new Act required fundamental reforms both in the government institutions dealing with GIEs and their relationships to each other as shown in Chart I.

Chart I
Institutional Relations



4.05 GIE Management Evaluation Council: This council is the highest authority in charge of deliberating and resolving matters related to the overall management of GIEs. Chaired by the Minister of Economic Planning, the Council is composed of the Minister of Finance, ten ministers of the relevant technical ministries, and three temporary commissioners from the

private sector. 6/ As of July 31, 1985, the latter were the President of KDI and 2 academic professors.

4.06 As outlined under Article 4, Section 2, of the Act, the Council's main responsibilities include:

1. formulating general guidelines for preparing the management objectives and budgets of GIEs;
2. coordinating those management objectives for the GIEs;
3. evaluating managerial performance of GIEs; and
4. dealing with other matters concerning the management of GIEs, as determined by presidential decree.

4.07 Public Enterprise Evaluation Bureau: Located in the Ministry of Economic Planning, this Bureau functions as a permanent secretariat to the Management Evaluation Council and reports directly to the Chairman of the Council. This Bureau carries out the Council's main responsibilities, coordinates closely with other sectoral/technical ministries on the matters concerning them, and handles all the work related to performance evaluation. The Bureau has about twenty people on its staff, including the Director and two division chiefs.

6/ See Article 4, (3) of the Act.

4.08 Referred to as the busiest civil servant in Korea, the Director of the Bureau is the Executive Secretary of the Council and also is a de jure member of the Boards of Directors of all 25 GIEs. 7/ One of the Bureau's most important tasks is to design and implement the performance evaluation system for GIEs. Given the limited experience, professional skills and knowledge of the staff, however, the Bureau has had to call on the KDI to do the job. The Bureau also has had to rely on the ad hoc GIE Management Evaluation Task Force, composed exclusively of nongovernment experts, to evaluate the GIEs in 1984 and 1985, and will still do so for 1986. However, the Bureau is planning to carry out the evaluation task with its own staff beginning in 1987.

4.09 In July 1985, the Bureau's most visible activity was revising the Establishment Acts of individual GIEs, which should be substantially modified in accordance with the new Act. The revisions for the 25 GIEs should be completed by the end of 1985.

4.10 GIE Management Evaluation Ad Hoc Task Force: As mentioned above, this Task Force actually carried out the performance evaluation over the last two years. For the last round of 1985, the Task Force had 32 members, including professors in economics and business administration, senior staff

7/ One of his most sensitive tasks is to convince his colleagues from sectoral ministries to stop interfering with the day-to-day management of GIEs that were under their direct purview until recently.

from research institutes, businessmen, and CPAs. The Task Force was well received by GIEs not only because of its professional expertise but also because of its neutrality. On the average, the Task Force worked on its assignment during April and May of 1985. Upon nomination by the Council in April, the members of the Task Force started reviewing the "annual performance evaluation reports" submitted by GIEs. They visited GIEs on several occasions for further data collection and discussions with GIE managers and planners, and gave performance scores after intensive deliberations with government officials, GIEs officers, and their colleagues. The Task Force reported its findings to the Council in about mid-June.

4.11 GIE Special Task Force: One of the most visible results of the first round of the performance evaluation exercise in 1984 was the heightened awareness of GIEs of the impact that the evaluation system might have on the reputation and the future of the company. This resulted in the creation of a performance evaluation unit within most of the GIEs, generally staffed with highly qualified personnel. In March 1985, the government created the GIE Special Task Force to bridge the rapidly widening gap between the government and GIEs in skill, knowledge, and expertise on matters related to performance evaluation. The government realized that unless it took action immediately, the negotiating power between the two parties would be unbalanced in favor of GIEs. Moreover, the credibility of the evaluation system relies heavily on the professionalism of government officials in charge of the system and the

government's sustained efforts to tailor both qualitative and quantitative indicators to the specifics of each GIE.

4.12 Currently composed of two KDI staff, four certified public accountants, and ten officers from various GIEs, this Special Task Force can in the long run be an excellent mechanism to meet the two major needs--training of government staff and improving the indicators. For the time being, it is concerned exclusively with improving the performance evaluation system. There is no elaborate training program for government staff, especially those working in the Performance Evaluation Bureau in the Economic Planning Board. For the next two years, the Special Task Force will focus essentially on further improving enterprise-specific indicators.

4.13 Sectoral/Technical Ministries: Before the introduction of the present system, sectoral and technical ministries interfered with the day-to-day management of, and sometimes provided unjustified overprotectionist measures for, the GIEs under their purview. Among other things, the new Act aims to eliminate--or at least substantially reduce--this excessive interference. The Act directs those ministries instead to devote all their energy to formulating sectoral policies to be carried out within the nationwide framework of development strategy. This task is to be carried out by using the sectoral ministry's seat on the Board of Directors of GIEs to discuss and reach agreement upon the management objectives -- the latter being an integral part of the

performance evaluation exercise (see Article 5, Section (2) and (3) of the Management Act).

4.14 After two rounds of the evaluation exercise, some observers claim that the interference of the sectoral and technical ministries has been reduced to the minimum level and that each party is ready to play the game according to the rules. That is, sectoral ministries will issue only policy guidelines, and GIE management will have increased autonomy and accountability. However, some sectoral ministries have complained that their policy guidelines have not been properly reflected in corporate plans, and that they now have little or no power to force GIEs to follow their guidelines.

B. Legal Reforms

4.15 The Management Act provides the general legal framework within which the GIEs operate. Once the Act became effective, the existing decrees needed to be revised to reflect the new Act's general philosophy and specific regulations. The Performance Evaluation Bureau in the Economic Planning Board has been busily carrying out that task. By July 31, 1985, the Establishment Acts had been revised for seventeen GIEs with the other eight revisions scheduled for completion by the end of 1985.

4.16 The principle of the autonomy of management is further reinforced in the revised individual decrees. As a Director in the Ministry of Telecommunications put it, all references to the words "a priori approval"

or "report to the Ministry" should be deleted in the revised Establishment Acts. According to the Director of the Performance Evaluation Bureau, there has been surprisingly limited, even mild objection from the sectoral ministries to this policy. For an outsider, this comes as rather a surprise since legal reform generally constitutes one of the most complicated and politically sensitive operations; for example, this is the case in many African countries, which are strongly tilted toward a very French legalistic attitude.

4.17 Two factors may possibly explain this acceptance. One is the high commitment of the President of the Republic of Korea to the evaluation system and the elimination of a priori government control over GIEs. Therefore, all ministries understand immediately that there is no room for possible power games between various ministries. Another factor is the general climate in Korea in favor of the accelerated liberalization movement of the economy. This has been adopted as the major policy shift by the new administration of President Chun and stands in sharp contrast to the government-led strategy of the previous administration.

V. THE PERFORMANCE EVALUATION SYSTEM

5.01 In December 1983, the performance evaluation system was applied to 24 GIEs on an experimental basis. It reviewed their operational results for the first six months of 1983. In June 1984, evaluation was conducted

for the same 24 GIEs for the results of the entire year of 1983, and in June 1985, the second round of the performance evaluation was carried out for 25 GIEs for the results of 1984. This section reviews the principles used in developing the performance evaluation system, then examines the chronological sequence of its implementation, and finally describes the system's performance indicators.

A. Basic Principles Governing the Performance Evaluation System

5.02 When setting up the performance evaluation system in Korea, efforts were made to respect the following basic principles to the extent feasible: 8/

1. The performance of management should be evaluated, not that of the company. For example, in a deficit-producing GIE, an improvement in management efficiency can reduce losses. Thus, management should be credited for such improvement.
2. Both the short-term and long-term performance of management should be evaluated.
3. Evaluation should be limited only to the variables within the control of management (e.g., when tariffs are beyond the

8/ " A New Direction Toward Autonomous and Responsible Management and Performance Evaluation System of GIEs in Korea" (in Korean) August, 1984.

control of GIEs, the impact of changing prices should be excluded from the performance evaluation).

4. Evaluation should be based on public profitability and not on private profitability. 9/

5.03 These principles except for number 4 above (i.e. public profitability) seem to have been strictly adhered to when the two rounds of performance evaluation were carried out in 1984 and 1985. One of the weaknesses of the system, which has most often been cited by managers and Evaluation Task Force members, was the uncertainty concerning the extent to which public profitability measures could effectively reflect both the effectiveness (i.e., the delivery of the goods and services of GIEs) and the efficiency of management. Public profitability as defined now is deemed to be only a very rough proxy for the theoretical measurement of both the effectiveness of the company and efficiency of management. Therefore, in some cases, private profitability or productivity was used in the place of public profitability (see para. 5.08 below). The issue is likely to receive high priority in the future research program of the Special Task Force of the KDI.

9/ For the definition of public profitability, see the articles of Leroy P. Jones, "Towards a Performance Evaluation Methodology...", and the article of Dr. D. M. Song, "New Approach to the Performance Evaluation of Management of GIEs" (in Korean), Seoul, KSI, 1983. Both authors use the same definition of "public profitability."

5.04 The evaluation cycle has two critical steps: (1) the process resulting in agreement on the management targets and enterprise-specific indicators (both quantitative and qualitative) and (2) the Task Force evaluation, based on the annual management performance reports prepared and submitted by the performance evaluation unit of each GIE. The reports contain:

- . the statement of account settlement for the preceding fiscal year (January 1 - December 31), accompanied by financial tables, supporting documents, and other documents necessary to clarify the contents of the account settlement;
- . supporting documents or data related to achievement of the pre-agreed management objectives;
- . backup documents or data related to the enterprise-specific quantitative indicators used; and
- . supporting documents or data related to the qualitative indicators (i.e., long-term corporate strategy, R&D, and internal control and Management Information System).

B. Implementation

5.05 A full cycle of the evaluation exercise takes almost two years from the design of and agreement on the management objectives to the publication of the final evaluation results in the mass media. It entails a

number of deliberations and feedbacks between the Government, GIEs and the ad-hoc Task Force. For example, the 1985 round of the performance evaluation of the 1984 operational results of GIEs proceeded as follows:

October 1983: With support of KDI staff, enterprise-specific indicators of performance evaluation were prepared by the Public Enterprise Evaluation Bureau acting as Secretariat, and sent to GIEs for their comments/suggestions.

December 1983: Both the enterprise-specific indicators and management objectives of GIEs were agreed on by the Secretariat and GIEs, following a series of consultations with their respective technical and sectoral ministries, which took account of sectoral development policies and consequent guidelines to GIEs.

March 31, 1985: GIEs submitted to the Secretariat the annual management performance reports on the operations of the year 1984, accompanied by a statement of account settlement and other requisite documents.

April 1985: The ad-hoc Management Evaluation Task Force was set up and the Council nominated its members.

April-June 1985: The Task Force evaluated the performance of the

GIEs, based upon the reports and data received, visits to GIEs, and discussions with government officials, GIE managers, and planning officers.

June-July 1985: The Task Force reported its results to the Council, which was followed by Council members' intensive deliberations on the results, especially on the results for the GIEs previously under their direct authority. At the end of July, the Council reported the results to the President of the Republic of Korea, and they were published in the mass media.

5.06 The two rounds so far undertaken revealed two problems. For one, making the indicators and management objectives final around December left little or no time for GIEs to readjust, if necessary, their corporate plans for the following year. Advancing the timing for the agreement on the goals and indicators to June or July would be more workable. Another problem is that the two-month evaluation period appears too tight for the Task Force to undertake a full, in-depth performance evaluation of GIEs. Many members recommend a longer period of time, for example, three or four months.

C. Indicators of Performance Evaluation

5.07 The performance indicators used in the Korean system are selected so as to measure the results of the year against the trends in recent years

as well as the degree of the achievement of pre-agreed management targets for the year. Two kinds of performance indicators are used: quantitative indicators which account for 70% of the final "score," of the GIE, and qualitative indicators which account for 30%. (Annex III provides greater detail on the scoring mechanism of the system.) Table 1 shows the quantitative and qualitative indicators used for the 1984 evaluation of the banking and manufacturing subsectors.

5.08 Quantitative Indicators: In most cases, the key indicator is public profitability, or private profitability, or productivity, with a weight of between 10% and 25%. In the 1985 evaluation, for example, public profitability was used as the key indicator in six GIEs with an average weight of 20%; private profitability, in twelve GIEs, with an average weight of 10%; and labor productivity was used in six GIEs. Therefore, it cannot be said that the concept of a single primary indicator is applicable in Korea. This is strikingly different from Pakistan's scoring system, where public profitability and private profitability enter for 50% and 20% of the final score, respectively. 10/

10/ "World Bank Role in the Management of Public Sector Industries: Pakistan Experience," 1984, p. 10.

Table I

Key Indicators of Performance Evaluation

Indicators	----- Subsectors-----	
	Manufacturing (weight in %)	Banking (weight in %)
<u>(A) Quantitative</u>		
1. Public profitability	20	°
2. Total deposits/No. of employees	°	10
3. Intermediate costs/Sales	10	°
4. Ratio of doubtful loans	°	10
5. Labor cost/Sales	10	10
6. Equity/Deposits	°	10
7. No. of injured people/One million tons of coal	5	°
8. Administrative costs/Earnings	°	°
9. Total energy produced/Coal produced	5	°
10. Operating profits/Operating capital	°	10
11. Total coal mined/Total reserves	5	°
12. No. of consolidated companies under administration	5	5
13. Administrative costs/Sales	5	°
14. Total amount of loans committed	°	10
15. Inventory/Sales	5	°
16. R&D expenditures/Administrative costs	°	5
17. R&D Expenditure/Sales	2	°
18. Equity + Fixed liabilities/Fixed assets	3	°
Subtotal	(70)	(70)
<u>(B) Qualitative</u>		
1. Long-term corporate planning	10	3
2. R&D	10	6
3. MIS and internal control	10	15
4. Services quality	°	6
Subtotal	(30)	(30)
GRAND TOTAL	(100)	(100)

Sources:

"Performance Evaluation Reports of GIEs for the Operational Results of 1983," Seoul, June, 1984.

"Performance Evaluation Reports of GIEs for the Operational Results of 1984," Seoul, June, 1985.

5.09 On the average, there are six or seven important other quantitative indicators in Korea. As Table 1 shows, these indicators vary from enterprise to enterprise in accordance with their specific activities.

5.10 Qualitative Indicators: Qualitative assessment is based on the GIE's performance in three major fields: its medium and long-term corporate strategy, its R&D activities, and its improvement of management information and internal control systems, or of the quality of the GIEs' services.

VI. Evaluation Results for 1983 and 1984 Operations

6.01 The final outcomes of the performance evaluation for the operations of 1983 and 1984 (conducted in 1984 and 1985) are shown in Table II.

6.02 The most interesting but also most difficult question drawn from this table is whether the Korean GIE subsector was better or worse off in 1984 than in 1983. Does the composite (and not weighted) average score have any useful meaning? If so, do the figures indicate a slight worsening of management efficiency in GIEs in 1984 compared to 1983?

Table II

Scores and Ranking (1983 and 1984)

<u>Name of Enterprise</u>	<u>1983</u>		<u>1984</u>	
	<u>Score</u>	<u>Ranking</u>	<u>Score</u>	<u>Ranking</u>
1. Korea Development Bank	92.49	(10)	91.59	(8)
2. Small & Medium Industry Bank	91.45	(15)	91.59	(7)
3. Citizens National Bank	94.45	(2)	92.22	(18)
4. Korea Housing Bank	92.43	(11)	92.31	(5)
5. Korea Stock Exchange	89.56	(19)	92.15	(6)
6. Korea Security Printing & Minting Corp.	91.92	(12)	90.28	(17)
7. Korea Electric Power Corp.	96.40	(1)	90.92	(13)
8. Daihan Coal Corp.	94.07	(4)	91.15	(11)
9. Korea Mining Promotion Corp.	91.71	(14)	90.47	(15)
10. Korea Petroleum Development Corp.	91.74	(13)	92.48	(4)
11. Korea Gen. Chem. Industry Corp.	88.97	(21)	93.55	(2)
12. Korea Trade Promotion Corp.	89.28	(20)	89.60	(20)
13. Korea Highway Corp.	94.12	(3)	91.24	(9)
14. Korea National Housing Corp.	93.80	(5)	83.55	(24)
15. Industrial Sites & Water Res. Development Corp.	90.12	(18)	90.74	(14)
16. Korea Land Development Corp.	92.52	(8)	94.35	(1)
17. Agricultural Promotion Corp.	93.38	(7)	90.94	(12)
18. Agricultural & Fisheries Development Corp.	90.49	(17)	88.78	(22)
19. Korea Telecommunications Authority	93.43	(6)	91.20	(10)
20. Korea National Tourism Corp.	88.85	(22)	89.13	(21)
21. Korea Broadcasting System	92.50	(9)	90.44	(16)
22. National Textbook Co., Ltd.	91.04	(16)	89.67	(19)
23. Korea Overseas Development Corp.	85.91	(23)	85.37	(23)
24. Korea Labor Welfare Corp.	84.01	(24)	92.72	(3)
25. Korea Gas Corp.	-	(-)	82.13	(25)
<u>Average</u>	<u>91.45</u>		<u>90.26</u>	

Sources:

"Performance Evaluation Reports of GIEs for the Operational Results of 1983," Seoul, June 1984.

"Performance Evaluation Reports of GIEs for the Operational Results of 1984," Seoul, June 1985.

Does the evaluation satisfy one of the general principles set by Professor Leroy P. Jones--i.e., the indicators should show improvement or worsening of the sector over time? 11/

6.03 Another interesting question concerns great changes in relative rankings from 1983 to 1984. Only three of the GIEs ranked in the top ten in 1983 finished in the top ten in 1984. Is this great variability significant? We will have to wait several years to answer that question in a satisfactory way.

6.04 Compared with their results of the previous year, four cases are particularly interesting as detailed in Table II.

- . The Korea Labor Welfare Corporation rose from last place (twenty-fourth) to third place. Annex IV examines this puzzling--and even intriguing--case in detail.
- . The Korea General Chemical Industry Corporation rose from twenty-first to second place, mostly due to the extraordinary jump in the company's sales activities. 12/

11/ Leroy P. Jones, "Note on Current Status of Performance Evaluation....," op. cit., p. 4.

12/ Dr. Dae Hee Song admitted that the Korean system did not succeed to completely separate out two factors contributing to the jump in sales-- i.e., management improvement and changed macroeconomic conditions.

- . The Korea Electric Power Corporation slid from first to thirteenth place. This case is interesting because the company's ranking dropped in spite of its extraordinary profits. The fall was due to the absence of an appropriate long-term corporate development strategy and the lack of a convincing loan-repayment schedule. The case seems to indicate the importance assigned to qualitative indicators.
- . The Korea National Housing Corporation fell from fifth to twenty-fourth place, due at least partly to the general recession in the real estate market.

6.05 Another way of comparing the results of two distinct years is to compare the number of GIEs by grades. Except for four cases, Table III shows little change over time in the number of GIEs by grades.

Table III

Number of GIEs by Grades (1983 and 1984)

<u>Scores</u>	<u>Grades</u>	<u>1983</u>	<u>1984</u>
1. 95-100	(outstanding)	1	0
2. 90-94	(excellent)	17	18
3. 85-89	(good)	5	5
4. 80-84	(satisfactory)	1	2
5. 75-79	(poor)	0	0
		<u>24</u>	<u>25</u>

Source: "Performance Evaluation Reports for the Operational Results of 1984," Seoul, June, 1985.

VII. ASSESSMENT OF THE PERFORMANCE EVALUATION SYSTEM

7.01 Although the performance evaluation system has met with extraordinary success, some major problems need to be solved quickly to prevent potentially serious difficulties from emerging. This section first discusses some of the system's achievements and the reasons for them, and then examines its problems and how to resolve them.

A. The System's Achievements

Conscientious Personnel

7.02 After two rounds of trial and experimentation, the performance evaluation system has now become a basic objective-oriented control system for public enterprises. All the actors involved are playing the game conscientiously.

7.03 The Enterprise Level: At the enterprise level, managers take the system seriously, modify their behavior in response to the signals of the system, and in most cases, generally use the criteria for performance evaluation as the "Bible" management. More often than not, the Boards of Directors also give special attention to those indicators when making policy decisions . All employees, from the president down, are anxious to earn high scores in the performance ranking. Most of the GIEs have

established their own internal units of performance evaluation, with a view toward strengthening their ability to carry out the government guidelines and improving their corporate planning and internal control. The units are generally staffed with the best personnel of the company who are called on to play two critical roles: as negotiators with the government as well as planners of the corporate strategy. This conscientiousness is only logical, since the GIEs have to satisfy the government, which determines their continued flow of resources. But the question remains whether using the system will lead to an overall, perceptible improvement in sectoral performance.

7.04 The Government Level: At the government level, the staff members of the Public Enterprise Evaluation Bureau in the Economic Planning Board realize that the system's impact has exceeded all expectations. They are therefore convinced that since the system works, the signals provided by the indicators must be "technically correct" so as to lead public enterprises to socially and economically desirable behaviors and targets. Thus, now that the system works, the technical issue of how to get the indicators right and tailored to the specifics of each GIE becomes critical. Indeed, several GIEs have already complained that the enterprise-specificity of the indicators is not up to their expectations and that, for instance, the non-commercial objectives of their companies were not properly captured in the indicators. Partly in response to this challenging issue, the Public Enterprise Evaluation Bureau has recently

strengthened its staff from 12 to 20, and the Chief of the First Division of the Bureau has just returned from a one-year training mission in the U.S. As already mentioned, a Special Task Force was established last March in KDI in order to serve as a think-tank for the Bureau over the next two years.

7.05 Sector/Technical Ministries: The third set of actors -- i.e., sectoral/technical ministries -- are encouraged to continue to stay away from direct interference in GIEs. They are directed to pass their guidelines on sectoral policies and orientations to GIE managements only indirectly or through intensive discussions when setting the management objectives during the first stage of the performance evaluation process.

7.06 Ad Hoc Task Force: As the last-but-not-least players, the experts of the ad hoc task force are the first to recognize that the overwhelming impact of the system took them by surprise. They claim that the present system should be replaced quickly by a permanent core of experts with better skills and more time available to improve the professionalism of the task force. However, they do not think that performance evaluation should be undertaken exclusively by the staff of the Bureau in the Economic Planning Board or only with limited participation of private experts.

B. Realization of Management Act's Goals

7.07 To what extent has the performance evaluation system so far achieved the purposes set forth in the Management Act? The answer must cover management accountability, management autonomy, and positive contribution to the nation's economy.

7.08 Management Accountability: Even before the introduction of performance evaluation, managers of GIEs in Korea compared favorably with those of most developing (and even developed) countries in terms of their heightened accountability for enterprise results. The new system clearly has strengthened the consciousness of accountability in the minds of managers.

7.09 Management Autonomy: While detailed assessment varies according to the actors, it is generally agreed that management autonomy has been increased under the system, especially as regards control over several key actions such as budgeting, procurement, and personnel policy. As a result, the pressure or interference from sectoral ministries on day-to-day management has virtually been eliminated or reduced to the bare minimum for most GIEs.

7.10 Positive Contribution to the Nation's Economy: The question of whether the performance evaluation system has actually increased the efficiency and effectiveness of GIEs cannot yet be answered. Indeed, no indications or data exist showing any actual improvement or worsening of the nation's economy attributable to the performance evaluation system.

According to Dr. Dae Hee Song of KDI, this is because no attempt was made to calculate the net contribution of the new system to the economy, although it could have been done, albeit with some technical difficulties.

7.11 A very rough indication would be the increase in the "nominal" operating surplus of the subsector from 400 billion won (US\$ 530 million) in 1983 to 600 billion won (US\$ 750 million)--about a 40% rise. Obviously, some of this was due to general price increases (although the inflation rate was kept at about 4% during the period) and to improved macroeconomic conditions. Moreover, this increase is in the "operating" surplus and not in public profits, as noted earlier.

7.12 Moreover, Dr Dae Hee Song claims that the positive contribution to the economy of the new system should be felt in the changes in the perception of management function by GIE managers. Under the performance evaluation system, GIE managers have become much more cost-conscious and efficiency-oriented than before, and these changes will translate in the future into a net gain of the economy. This second factor may be much more important in increasing the efficiency of the economy in the long run. Therefore, because the whole purpose of the system is to maximize the return under given costs or to minimize costs for a given level of benefit, gauging and quantifying, if possible, the net impact of the performance evaluation system on the nation's economy deserves particular attention. The Special Task Force should take this issue up in its research program.

C. Reasons for the System's Success

7.13 Why does the system work in Korea? We believe the answer lies in a number of factors.

7.14 High Degree of Political Commitment: The most important factor in the system's success is the high degree of political commitment. This commitment is all the more critical in a country like Korea where government leadership is the greatest driving force for economic growth. From the outset, the performance evaluation system has enjoyed the strong support of the President of the Republic of Korea, the Deputy Prime Minister (former alternate Executive Director to the World Bank), and the Director of Performance Evaluation Bureau in EPB, and the total devotion of Dr. Dae Hee Song, KDI, who has been not only the intellectual instigator of the system, but also an excellent campaigner to convince GIE managers and technical ministries of the utility of the system. Without his perseverance, competence, and objectivity, it is doubtful that the system could have received such wide acceptance from GIEs and the government in such a short period of time.

7.15 GIE's Receptiveness to Performance-Based Incentives: The high receptiveness of GIEs to the system's performance-based incentives (rewards and sanctions) is the second most important explanation for the system's success. Outstanding performance within the system has taken on a certain social status which gives it immense influence on the behavior of Koreans.

7.16 The pecuniary reward is the "extra bonus" determined by the ranking: outstanding firms receive a sum equivalent to three month's "extra" salary/wages; excellent firms, two and half months; good firms, two months; satisfactory firms, 2 1/2 months, and even poor firms, one month. No consensus exists on whether the differentials of "extra bonus" as they are now constituted provide sufficient motivation to drive management and employees toward better results: some people think they are, whereas others believe the differences are not terribly significant. We believe that for Korean workers, especially for those at the bottom of the salary scale, the differential between three month's and one month's extra bonus is sufficient motivation.

7.17 However, what is really important is the nonmaterial incentive or sanction provided by the system. Public recognition is a powerful motivating force in Korea. As an important element in group psychology, public recognition may exert an immense influence on the behavioral changes of Koreans. A respectable performance is all the more critical because of the personal interest of the President of the Republic and wide publication of the evaluation results in the mass media. For example, after the Korea Labor Welfare Corporation made an extraordinary jump in efficiency improvement from last place (twenty-fourth) in 1983 to second place in 1984, its president was promoted in July 1985 to be Deputy Minister of Labor.

7.18 Other Factors: Other factors that have contributed to the system's success include the relatively simple data requirements of the system; the preexisting absorptive capacity of GIEs which have long had highly qualified manpower; the proven professionalism, neutrality and devotion of the private experts of the task force; the ready disposition of Koreans toward the relative ranking system because of their early exposure to highly competitive entrance examinations; and demonstrated flexibility in setting enterprise-specific indicators and management objectives.

D. Problems with the System and Proposed Solutions

7.19 Despite its remarkable success, the system still has a number of serious problems. Unless proper action is quickly taken, they could lead to collapse of the system or to costly distortions of GIEs.

7.20 Imprecise Indicators of Performance: The most serious problem is that the system needs more appropriate enterprise-specific, comprehensive, and nonduplicative criteria. Professor Leroy P. Jones in "Note on Current Status of Performance Evaluation of Public Enterprises in Korea" provides an excellent analysis of the technical problems facing the Korean system. He argues that the system has two serious technical defects as follows.

7.21 "The single most serious defect in the existing system is that criterion values are set in a way which violates the principle of fairness to the enterprise in the sense that changes in demand affect public

profitability." The suggested solution to this deficiency is to set a demand-dependent schedule of targets.

7.22 In addition, "there is the problem of duplication in the current set of indicators as demonstrated in the case of Dae Han Coal Corporation (and many other GIEs)." Professor Jones has proposed excluding duplicative indicators from the final evaluation system. While we generally agree with Professor Jones, KDI staff and government officials in the Economic Planning board do not. They believe that a single indicator such as public or private profitability alone cannot measure management efficiency and effectiveness. Other indicators should be used even at the risk of some of them being duplicative. In their opinion, the question of the duplication of indicators boils down in the last analysis, to the relative weight -- explicit or implicit--of various indicators. In the Korean system, the duplication results in assigning implicit and uncalculated weights to some indicators, which consequently may have greater weights than explicitly specified. However, the experts in KDI and EPB think that such implicit weights are not so important as to significantly distort the assessment of the performance of GIEs.

7.23 Another reason that argues for using several indicators of equal weight rather than a single dominating indicator (e.g., Pakistan's use of public profitability with 50% weight) is that GIE managers are more willing to accept a set of several indicators, rather than just one or two indicators, to evaluate their performance. Rightly or wrongly, they

believe that the potential benefits or damages of the evaluation results for their company could be minimized with a set of various indicators of equal importance, rather than with one or two overwhelming indicators. That argument has actually been advanced on several occasions by many managers of GIEs during the evaluation process of the 1985 round. This question of duplicative indicators will receive top priority in the research program of the KDI-located Special Task force.

7.24 Suboptimal Data Collection and Analysis: The management information systems used in the evaluations need further standardization and computerization to strengthen the reliability and efficiency of data collection and analysis. The Special Task Force is now working on this problem. It expects that beginning in 1987, the performance of GIEs will be evaluated on the basis of standardized and computerized data collection and analysis.

7.25 Excessive Competition among GIEs: There seems to be too much competition "pressure" among GIEs for a better score. This may result in wasted time and energy with little or no improvement in a GIEs efficiency. Evaluating GIEs every other year, instead of every year, may be a workable solution.

7.26 Lackluster Performance by Board of Directors: The functioning of the GIEs Boards of Directors is far from satisfactory. From the institutional reform point of view, their failure as a meaningful and

useful body (whether executive or advisory) is a serious blow to the system. At this time, the Board is neither a decision-making body nor an executive body. The two-tier management system advocated under the Management Act has turned out to be an empty concept, and a solution needs to be found on whether the Board should be a real decision-maker, an executive body or a simple formality. The task force has identified this issue as one of its top research priorities. However, few people in Korea think that a workable solution can be found soon. Some believe that the status quo-- i.e., the Board doing no business at all-- may be the best solution. (For details, see the article of Professor Thomas A. Mahoney, "Observation on Management Practice Under the GIE Management Act," Owen Graduate School of Management, Vanderbilt University, December 1984).

7.27 Insufficient Emphasis on fundamental Policy Change: The Korean system fails to produce fundamental policy shifts in GIEs. This is because the evaluation of management performance is based upon the concept of marginal and gradual improvement, rather than fundamental, abrupt changes in a corporation's policy or directions. Actually, the problem is probably exacerbated because the agreed-upon management objectives, which at least in theory could incorporate fundamental policy shifts of the sector, now account for only 15%-20% in the evaluation score and therefore get limited attention from GIE managers. This is most obvious in the sectors where technical changes are extremely rapid and comprehensive. For example, Telecommunications Corporation of Korea was faulted for not having its management objectives reflect sufficiently the drastic changes in

policy directions advocated by the Ministry of Telecommunications. This problem does not appear that serious in other subsectors, where shifts in policies and directions are forthcoming more gradually. Therefore, if a ministry intends to use a corporation under its sectoral authority as a vehicle to implement a massive shift in its sectoral policy, the performance evaluation system is not the most appropriate tool for that purpose. A more direct way, such as creating a new GIE or modifying the legal status of the GIE in question, might be more efficient.

7.28 Potential for bias: The task force members are said to be subject to "pressure" for favoritism by GIE managers/planners and Board members. A solution to this problem now under consideration is to reorganize the work of the task force members. At present, each member works for two or three GIEs and scores their overall performance. Instead, from now on, he will be required to work on a limited number of indicators (whether qualitative or quantitative) for all 25 GIEs. The new system will minimize the danger of corruption (which has never been detected yet) and will strengthen both the principle of division of labor and the professional competence of the experts.

7.29 Inadequate Professional Expertise of Government Officials: There is an increasingly urgent need for strengthening the professional expertise and skills of government officials involved in matters related to performance evaluation. No training program for government officials has yet been elaborated. However, given the critical importance and urgency

for the training of government staff, especially those working in the Performance Evaluation Bureau in the Economic Planning Board, the special task force should be requested to devise as soon as possible a short and long term training program (both in-house and external).

VIII. LESSONS FOR FUTURE PERFORMANCE EVALUATION SYSTEMS

8.01 Officials considering introducing a performance evaluation system for public enterprises in African countries and elsewhere may draw several lessons from the Korean experience. To be successful, their systems should incorporate the following guidelines:

- ° High level political leaders and ministries should show a strong, consistent commitment to the system.
- ° This commitment should be equally strong throughout the government, in relevant academic circles, and in research institutes.
- ° At the start, the system should be simple with crude indicators and limited data requirements. The system can then be refined.
- ° Training the key officials in government and enterprises who will be responsible for running the system should be given top priority.

- ° Devising adequate incentive and career development systems, based upon performance evaluation, is critical. In countries where public recognition or non-pecuniary rewards and penalties do not play as critical a motivating force for harder work, material incentive systems should be given greater weight than in Korea.
- ° A system that combines both evaluation and "monitoring" appears to be more appropriate in African countries. The question is how to avoid overwhelming enterprises with excessive data and information requirements.

8.02 African countries, which suffer from a lack of qualified and trained personnel in monitoring and evaluating the performance of their PEs, may choose to rely on foreign experts at least in the short run. In that case, it seems worthwhile to consider hiring consultants who have practical experience in devising and implementing performance evaluation systems in such developing countries as Pakistan and Korea.

Table I
KOREAN PUBLIC ENTERPRISE BY TYPE (1983)*

Type of Public Enterprise	Characteristics	Number of Public Enterprises	Employment (thousands)	Budget (millions of US\$)	Sales (1982) (millions of US\$)
Government Enterprises	Government department type (Office of Monopoly, Office of Railroad, etc.)	5	80 (28.1%)	4,574 (22.3%)	2,735 (13.5%)
Government-Invested Enterprises	Government holds at least 50% of stock (Korea Development Bank, Korea Electric Power Corporation, etc.)	24	128 (44.9%)	9,728 (47.4%)	8,614 (43.0%)
Subsidiary Companies of Government-invested enterprises	Indirect government investment through government-invested enterprises	49	43 (15.1%)	2,140 (10.4%)	4,384 (21.9%)
Other Government-Backed Enterprises	Government holds less than 50% of stock	7	34 (22.9%)	4,074 (19.9%)	4,300 (22.5%)
TOTAL		85	285 (100.0%)	20,517 (100.0%)	20,033 (100.0%)

Source: Economic Planning Board.

TABLE 2
SIZE OF GOVERNMENT-INVESTED ENTERPRISES

EMPLOYMENT	PAID IN CAPITAL BUDGET (million U.S.\$)			PRIMARY SERVICE/PRODUCT	EMPLOYMENT	PAID IN CAPITAL BUDGET (million U.S.\$)			PRIMARY SERVICE/PRODUCT
Korea Highway Corporation	2,367	147	126	Planning, construction and management of expressway	Korea Development Bank	2,179	679	886	Long-term loans investment guarantees, int'l banking
Korea Housing Corporation	2,420	189	877	Low-income housing construction	Small and Medium Industry Bank	7,380	178	358	Providing credit guarantees, loans, and discounts to small & medium industries
Industry Site and Water Resource Development Corporation	1,227	461	128	Industry site and special regional development	Citizens National	9,641	25	449	Promoting household savings, expanding financing to small enterprises & low income groups
Korea Land Promotion Corporation	875	252	269	Land acquisition and supply	Korea Housing Bank	6,415	25	277	Fund-generation financing for both public and private housing sectors
Agriculture Promotion Corporation	2,196	12	180	Irrigation development land reclamation	Korea Securities Exchange	348	4	9	Regulations of securities sales review of new stock offering
Agriculture and Fishery Development Corporation	448	13	16	Assisting processing and marketing distribution of agricultural and fishery products, research	Korea Electric Power Corporation	22,372	2,060	3,622	Electrical source development and electricity generation
Korea Telecommunication Authority	42,883	2,338	1,504	Dredging and filling	Korea Coal Corporation	14,247	83	383	Coal production
Labor Welfare Corporation	1,153	25	18	Providing industrial accident insurance, industrial safety/health-related services.	Korea Integrated Chemical Stock Company	955	114	126	Urea and chemical fertilizer production
Korea Trade Promotion Corporation	509	1	30	Overseas marketing and information service	Government Printing Office	561	11	37	Textbook production and supply
Korea Tourism Corporation	476	28	57	Tourism	Government Mint	3,209	9	69	National mint
Korea Broadcasting System	5,080	93	250	Radio and TV broadcasting service	Korea Mining Promotion Corporation	406	67	23	Technical guidance, mine assessment and mineral credit financing.
Overseas Development Corporation	225	1	5	Overseas labor supply service	Petroleum Development Corporation	329	29	27	Petroleum resource exploration and development, domestic oil supply and demand stabilization
Total	127,721	6,865	9,728						

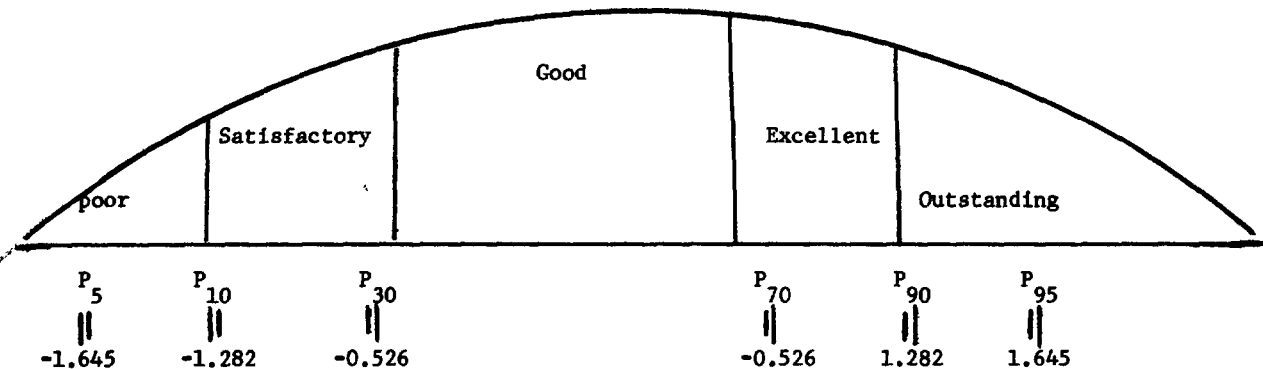
Source: Dae Hee Song, "New Policy Direction..." p. 30, Appendix 1.

The Scoring System

1. The scoring mechanism of the Korean performance evaluation system can be described as follows:

(a) There are two methods to set quantitative indicators: one is to set them by projecting 5-6 year trends as the performance basis and then using standard deviations to set the magnitudes of the year for above- and below- standard classifications. Concretely, the score of the year is calculated as follows:

- (i) calculate the "actual" value of the year;
- (ii) calculate the 5-6 year trend value;
- (iii) calculate the standard deviations of the "actual" value over the trend value and classify them into the following 5 categories according to probabilities: outstanding, excellent, good, satisfactory, and poor and the nominal distribution of probabilities as follows:



(iv) Calculate the scores according to the following formula:

<u>Categories</u>	<u>Scores</u>
Outstanding	$= 95 + 2.5 \times \frac{\text{Actual value} - P_{90}}{P_{95} - P_{90}}$
Excellent	$= 90 + 5 \times \frac{\text{Actual value} - P_{70}}{P_{90} - P_{70}}$
Good	$= 85 + 5 \times \frac{\text{Actual value} - P_{30}}{P_{70} - P_{30}}$
Satisfactory	$= 80 + 5 \times \frac{\text{Actual value} - P_{10}}{P_{30} - P_{10}}$
Poor	$= 77.5 + 2.5 \times \frac{\text{Actual value} - P_5}{P_{10} - P_5}$

- (b) A second way to set quantitative indicators is by using distribution values in the past 5 years (instead of the trend value.)

$$\begin{aligned} \text{(i) standard value } \bar{y} &= \frac{a+4m+b}{6} \\ \text{standard deviation } s &= \frac{(b-a)^2}{36} \end{aligned}$$

where a: the lowest actual value in the past 5 years
b: the highest actual value in the past 5 years
m: actual value of the year preceeding the evaluation

- (ii) The classification of distribution values into 5 categories and the scoring system are the same as in the trend method.
- (c) The score of the achievement of agreed-upon management targets (both qualitative and quantitative) is made as follows:

<u>Achievement degree</u>	<u>Score</u>
100% and plus	100
95% - 99%	90
90% - 94%	85
85% - 89%	80
85% and less	75

- (d) The qualitative indicators related to corporate strategy, R and D, and MIS improvement are assessed in three categories:

<u>Categories</u>	<u>Score</u>
High	97.5
Middle	87.5
Low	77.5

- (2) The overall score of the performance of a GIE is obtained by adding all the scores of indicators multiplied by their respective weights and is classified as follows:

<u>Categories</u>	<u>Score</u>
Outstanding	95-100
Excellent	90-94
Good	85-89

Satisfactory 80-84
Poor 75-79

- (3) For illustrative purposes, let's take the first year (1983) results of the Dae Han Coal Corporation (the third biggest GIE after Korea Telecommunication Authority and Korea Electric Power Corporation).

<u>Indicators</u>	<u>Method</u>	<u>Trend/</u>	<u>Value</u>	<u>Actual Value</u>	<u>Categories</u>	<u>Score</u>	<u>Weight</u>	<u>Weighted Score</u>
1. Public profitability	5 year trend	8.14%		5.80%	Excellent	94.06	20%	18.81
2. Labor cost /sales	5 year trend	73.35%		72.02%	Outstanding	95.00	10%	9.50
3. Administrative cost/sales	3 year distribution	1.44%		1.49%	Satisfactory	81.20	5%	4.06
4. -	-	-		-	-	-	-	-
5. -	-	-		-	-	-	-	-
-	-	-		-	-	-	-	-
-	-	-		-	-	-	-	-
12.R & D					Middle	87.50	10%	8.75
<u>Total</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>100%</u>	<u> </u>

Source: "Manual for Management Performance Evaluation of GIEs, 1985" Seoul, 1984

Scoring/GHA1/KB33

Annex IV

A Case Study: Korea Labor Welfare Corporation

Established on December 28, 1979, Korea Labor Welfare Corporation is a GIE responsible for promoting the welfare of workmen. Its major functions include:

- ° establishment and management of facilities for compensating victims of industrial accidents;
- ° projects related to industrial safety and health;
- ° labor welfare promotion projects; and
- ° governmental consignment projects related to labor welfare.

The Corporation operates seven industrial-accident-victim hospitals with some 1,000 beds and other industrial welfare facilities, including an Industrial Rehabilitation Center with 300 beds available. It has 1,347 personnel, including some 100 doctors, 470 nurses and 200 office personnel. The total budget for 1985 amounts to 26 billion won (or US\$30 million), of which 87% goes for medical operations and 4.5% for welfare operations.

Ranked in the last place (twenty-fourth) in the 1984 evaluation, the Corporation rose to second place in the 1985 evaluation. Many people

think that most of the credit for the extraordinary improvement should go to the Corporation's President who devoted all his energy and efforts to improve management through a series of innovative and sometimes painful reform measures.

Following is a summary of the major categories of reform measures undertaken during calendar year 1984. (For details, see the brochure (in Korean) entitled "The Performance Evaluation and Improvement of Management of Korea Labor Welfare Corporation, 1985.")

- ° Efforts to increase the number of patients accepted: (One of the key indicators of performance evaluation is the ratio of total costs of medical examination and treatment over the number of patients accepted.)
- ° Efforts to improve the efficiency of internal control:
 - creation of a performance evaluation unit; and
 - introduction of performance-based incentive and career-development systems.

° Efforts for reorganization:

- trimming and simplification of the internal organization; and
- merge/fusion/liquidation of various committees from 90 to 57.

° Efforts to improve personnel policy:

- layoff of redundant manpower (44 personnel);
- in-house and abroad training programs;
- introduction of the term system (three years at maximum) for the executive members; and
- introduction of the "pool" system of manpower between the central headquarters and peripheral hospitals.

° Efforts to rationalize the budget process:

- introduction of the zero-base budget system; and
- creation of the cost-reduction program, for example, self-supply of patient's clothes, foods or office appliances, such as printing (actual reduction of 251 million won over the 1984 budget).

° Efforts for better procurement/contract:

- rationalization of procurement system of materials,
including the centralized (instead of the
decentralized) system of procurement.

° Other efforts:

- case studies of welfare corporations in other countries
(especially in Japan);
- in-depth study on the long-term strategy of the company
(done by the KDI); and
- simplification of and reduction in frequency of
regular "reporting" within the company.

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